TESTIMONY OF ROBERT SACHS
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on

CABLE AND VIDEO: COMPETITIVE CHOICES

before the

SUBCOMMITTEE ON ANTITRUST,
BUSINESS RIGHTS, AND COMPETITION

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1. INTRODUCTION

Mr. Chairman, members of the Subcommittee, my name is Robert Sachs and I am President and CEO of the National Cable Television Association. NCTA represents cable companies serving more than 90 percent of the nation's 69 million cable customers and more than 200 cable program networks. Thank you for providing us with this opportunity to testify before your subcommittee. In my testimony today, I will describe the state of competition in the multichannel video market and highlight what cable operators are doing to provide consumers with new products and services over advanced broadband facilities.

Five years ago, Congress passed the landmark Telecommunications Act of 1996. The goals of this Act were to: (1) bring competition to telecommunications and video; (2) expand consumer choice; (3) encourage investment in new technologies; and (4) speed the introduction of advanced services, including digital television. Some have argued that the Act is not working – especially when one considers the lack of widespread competition in local residential telephone markets. But we should not let slow progress in local exchange competition eclipse the fact that the Act has successfully spawned competition in the multichannel video market. As cable companies complete system upgrades across the country, consumers are realizing benefits in the form of digital cable, cable modems, and cable telephone service. As I will describe more fully, cable faces real competition in every one of these businesses.

Before 1996, cable operators faced video competition primarily from over-the-air television, C-band satellite receivers, video rentals, and movie theaters. Direct broadcast satellite (DBS) competition has changed that forever. Being digital from the start, and having the advantage of substantially greater channel capacity, DBS spurred cable operators to replace hundreds of thousands of miles of coaxial cable with fiber optics so that they too could offer consumers hundreds of channels of digital video and audio services. In responding to vigorous competition from DBS, cable operators have made enormous investments in not just plant but computers, billing systems, personnel, and training – resulting in significant improvements in the quality of service we provide to our customers.

Market Share of Multichannel Video Program Distributors (MVPDs)
February 2001

MVPD	Subscribers (in Millions)	Percent of MVPD Market
DBS	15.34	17.40
C-Band	1.12	1.30
MMDS	0.70	0.80
SMATV	1.50	1.70
Local Telephone Companies	0.43	0.49
Broadband Competitors	0.66	0.75
Total Non-Cable	19.75	22.44
Cable	68.28	77.56
Total Multichannel	**88.03**	**100.00**

Source: **NCTA Research Department estimate based on data from A. C. Nielsen, Paul Kagan Associates, Cable World, SkyREPORT, and public reports of individual companies.**

2. COMPETITION IN THE VIDEO MARKET IS WELL ESTABLISHED AND GROWING STEADILY

A. Nearly 20 Million Consumers Now Subscribe to Cable's Competitors

Today, consumers can choose from a variety of multichannel video providers, including DBS, alternative broadband providers like RCN, phone companies, and utilities. As a result of this competition, nearly 20 million consumers – more than 22 percent of subscription television customers – now obtain multichannel video programming from some company other than their local cable operator. In contrast, five years after passage of the 1996 Act, the regional Bell companies still control 97 percent of all residential telephone lines.

B. DBS in Particular Has Become a Competitive Substitute for Cable

With the passage of the Satellite Home Viewer Improvement Act (SHVIA) in November 1999, DBS companies can now retransmit local broadcast signals into their market of origin ("local-into-local"). As of December 2000, DirecTV and EchoStar made available local TV signals to over 61 million television households in 41 markets. When combined with their ability to offer hundreds of channels of digital video and CD quality sound, DBS companies compete vigorously with cable. Just ask Drew Carey.

The total number of DBS subscribers jumped from 10.7 million to 15.3 million between February 2000 and February 2001 – a 43 percent annual growth rate. DirecTV now has more subscribers (9.8 million) than all but two cable operators – AT&T and AOL Time Warner – making it the third largest multichannel video provider in the U.S. The number two DBS provider, EchoStar, has more customers than all but five cable companies.

C. Total Dish Subscribership (C-Band and DBS) Now Exceeds 15 Percent in 38 States.

According to SkyREPORT, Direct-to-Home (DTH) subscribers (all dish customers, including DBS and C-Band) grew from 13.44 million to 16.45 million between February 2000 and February 2001, an increase of 22 percent (versus 1 percent for cable). In 38 states, DTH satellite subscribership now exceeds 15 percent of all television homes. As of January 2001, DTH penetration exceeded 20 percent in 28 states, 25 percent in 11 states, 30 percent in 4 states, and 40 percent in 1 state. For example, DTH penetration in Ohio is over 15 percent, in Wisconsin over 20 percent, in Utah almost 25 percent, and in Vermont more than 40 percent. Today, most consumers have the choice of two DBS providers in addition to cable, and some have other multichannel video choices as well.

States With Direct-To-Home (DTH) Dish Penetration of Fifteen Percent or More (January 2001)

STATE	% OF TVHH w/DTH
Vermont	40.63
Montana	38.39
Wyoming	33.16
Mississippi	30.76
North Dakota	28.42
Arkansas	28.42
Idaho	27.91
North Carolina	26.71
Kentucky	26.38
West Virginia	25.39
Missouri	25.27
South Dakota	24.46
South Carolina	24.42
Utah	24.00
New Mexico	23.83
Texas	23.64

STATE	% OF TVHH w/DTH
Indiana	23.51
Tennessee	23.02
Alabama	23.01
Oklahoma	22.43
Maine	22.33
Virginia	22.10
Iowa	21.88
Georgia	21.78
Colorado	20.88
Wisconsin	20.68
Nebraska	20.62
Oregon	20.03
Arizona	19.82
Kansas	19.80
Minnesota	19.04
Michigan	17.78
Louisiana	17.10
Florida	16.79
Washington	16.42
New Hampshire	15.32
Ohio	15.27
Nevada	15.26

Source: SkyTRENDS SkyMAP January 1, 2001; www.skyreport.com

D. DBS is Not the Only Competitor to Cable

The ability to sell telephone, high speed Internet access, and an expanded number of video programming channels over a single broadband facility (or in conjunction with wireless or satellite providers) is providing new incentives for facilities-based broadband competition. Companies like RCN, Knology, WideOpenWest, Altrio, Carolina Broadband, Everest Connection, Grande Communications, and Western Integrated Networks have obtained franchises to provide consumers with competitive broadband services. Although relatively new, and despite recent difficulties in the capital markets, these companies have raised billions of dollars to construct alternative broadband facilities in various areas across the country.

As utilities face a newly deregulated and competitive marketplace, they – like other telecommunications companies – have incentives to offer and package additional services over their facilities. Consequently, utilities like Sigecom in Indiana and Seren Innovations in California are joining the new class of broadband overbuilders in offering multichannel video programming services to consumers.

Incumbent local exchange carriers are also adding video programming to their product line-ups. For example, Qwest has introduced a means of delivering video programming to telephone subscribers in the metropolitan Phoenix area over existing fiber-optic and residential copper-wire telephone facilities. The new technology – VDSL (very high speed digital subscriber line) – is similar to the DSL service used by the telephone companies to provide high speed Internet service.

3. CABLE OPERATORS ARE UPGRADING THEIR SYSTEMS AND COMPETING WITH OTHER PROVIDERS TO BRING CONSUMERS NEW BROADBAND SERVICES

Cable companies have responded to competition in the video market by aggressively upgrading their facilities and launching new services. Since passage of the Telecommunications Act of 1996, the cable industry has invested $42 billion to deploy broadband plant in order to offer a wide array of advanced services, including digital video, digital music, high speed access to the Internet, and telephony. These upgrades involve rebuilding more than a million miles of cable plant. At year-end 2000, they were approximately 75 percent complete. As the 1996 Act "turned five" in February 2001, cable added its 10 millionth digital video customer, 4 millionth high-speed data customer, and 1 millionth residential cable telephone customer.

A. Digital Video

Among the new options that cable customers have are digital video services. Digital video provides increased channel capacity through compression of multiple video signals in the same 6MHz slot previously occupied by a single analog channel. As a result, customers are able to receive dozens of new programming services from cable operators. Digital video also offers crystal-clear video images, CD-quality sound, on-screen menus, interactive program guides, search capabilities, and expanded parental controls.

Cable program networks have already launched some 60 new digital channels, offering consumers additional choice and further program diversity. Examples include the *Biography Channel* and *History Channel International* (from A&E); *Science, Civilization,* and *Kids* (from Discovery); *Noggin, Nick Too,* and *Nickelodeon Games & Sports* (from Nickelodeon); and *style.* (from E!). There are six new Hispanic channels from Liberty Cañales, new music channels from MTV and BET, and separate channels targeting Indian, Italian, Arabic, Filipino, French, South Asian and Chinese viewers from *The International Channel*. There are also many new premium offerings from HBO (*HBO Family, ActionMAX,* and *ThrillerMAX*), Showtime (*Showtime Extreme, Showtime Beyond*) and Starz! Encore (*Starz! Family, Cinema, Movies for the Soul,* and *Adventure Zone).*

Consumers are responding by signing up for digital tiers in record numbers. Cable operators started 2000 with just under five million digital video subscribers but doubled that number to 10 million by March 2001. A survey released in March 2000 by the Cable and Telecommunications Association for Marketing (CTAM) showed positive customer response to their upgraded, digital cable offerings: of nearly 2,600 consumers polled, 95 percent expressed satisfaction with their service.

With millions of digital set-tops now deployed in cable networks, and thousands more installed every week, cable operators are beginning to look beyond simple broadcast services toward new, interactive services that meet the needs of individual customers. One service that many operators are aggressively pursuing is video-on-demand (VOD, which includes "subscription video-on-demand"). This 'personalized' television service allows customers to watch new movie releases or favorite TV programs, with real-time control of such features as pause, fast-forward, and rewind.

B. Cable Modems: High Speed Access to the Internet

Cable's upgraded broadband facilities also enable consumers to access any website of their choice at speeds 50 to 100 times faster than standard dial-up services. In addition, cable modem service is "always-on": there is no waiting for a connection to the network or the Web. Customers can download information instantaneously with cable modems, which can be purchased at retail stores or leased from a cable operator. The industry ended last year with 3.7 million customers – more than double its 1999 total of 1.6 million. By March 2001, the number of cable modem subscribers exceeded 4 million.

Cable's entry into high speed data services has also benefited consumers by prompting a strong competitive response from incumbent telecommunications companies. For example, cable's deployment of cable modems has led local telephone companies to offer digital subscriber line (DSL) service, a broadband data technology that has been available for over a decade. When there was no competition from cable, companies like NYNEX and Bell Atlantic (now Verizon) chose to sell more expensive T-1 and ISDN lines to consumers. However, as soon as cable offered broadband access to the Internet, local exchange carriers took DSL off the shelf and began selling it aggressively to millions of households across the nation. By year-end 2000, DSL subscribership reached the two million mark. In addition, companies such as Worldcom and Sprint provide broadband fixed wireless service, while satellite operators have begun to offer two-way broadband service.

C. **Cable Telephony**

The local residential telephone market has proven to be most resistant to the introduction of competition. Despite strong incentives provided by the Telecommunications Act of 1996, the vision of CLECs purchasing unbundled network elements and reselling local loops has not materialized as planned. However, with upgraded digital broadband facilities, cable operators are well positioned to offer facilities-based competition to local telephone companies.

Cable telephony provides numerous enhanced services, including voice mail, caller ID, and call forwarding. AT&T Broadband, Cox Cable, and Cablevision are today offering such services at rates 10-50 percent below those charged by incumbent telephone providers. For example, Cox communications offers its 200,000 residential phone customers a first line at 10 percent below the prevailing Bell rate; additional lines at up to 50 percent discounts; and feature packages such as call waiting at 30-75 percent discounts.

Cable operators started the year 2000 with 200,000 residential telephone customers and ended it with 850,000. They added a record 280,000 new residential telephone subscribers during the fourth quarter of 2000, and currently serve more than 1 million telephone customers. In addition, cable companies such as Cox, Adelphia Business Solutions, and Cablevision Lightpath are providing more than two million telephone lines to business customers.

Although still a new business, telephony is a key component of cable's business strategy for the future. This includes both switched voice service and Internet protocol (IP) telephony over broadband networks. Cable companies like Charter, Comcast, AOL Time Warner, and others are already field-testing IP telephony. Just as the first five years of the Act have seen video, wireless, and Internet competition flourish, I believe the next five will see Congress' vision of local phone competition finally realized.

4. PROGRAMMING OWNERSHIP

Today there are 224 national cable networks, compared with 76 in 1989. At the same time that cable is expanding its service offerings, vertical integration in the cable industry has declined from 53 percent in 1989 to 35 percent in 2000. This percentage will drop even further when AT&T completes its plans to divest Liberty Media.

In contrast, major companies like Disney, General Electric, Viacom, and News Corp (who respectively own the ABC, NBC, CBS and Fox networks), are increasing their ownership of cable networks. Each of the major commercial broadcast TV networks today is owned by a media company that has financial interests in 10 to 20 cable networks. Some are nationally distributed channels like CNBC, while others are regional channels like Fox Sports Net. Recently, Viacom (the owner of CBS) completed the acquisition of Black Entertainment Television, adding to its array of popular cable networks, which already includes Showtime, MTV, and Nickelodeon.

BROADCAST NETWORK INVESTMENTS IN CABLE NETWORKS

Walt Disney/ABC

The Disney Channel
SoapNet
Toon Disney

Partial Ownership:

ESPN
ESPN2
ESPNews
ESPN Classic
Lifetime Television
Lifetime Movie Network
E! Entertainment Television
A&E Television
The History Channel
The Biography Channel
The History Channel International

News Corp./Fox/Fox Entertainment

Fox News
Fox Sports Americas
Fox Sports World
fX
fXM: Movies on Fox
The Health Network
Fox Sports (regional networks): Southwest, West, West 2, Pittsburgh, Rocky Mountain, Northwest, Utah, Midwest, Arizona, Detroit, North

Partial Ownership:

National Geographic
TV Guide
Fox Family
Outdoor Life
Speedvision
Golf Channel
Fox Sports (additional regional sports networks)

Viacom/CBS/UPN

BET Holdings: BET, BET Action Pay-Per-View, BET on Jazz, BET Gospel
The Box
MTV
Nickelodeon/Nick at Nite
TV Land
VH1
TNN: The National Network
Showtime
The Movie Channel
Flix
The Suite (digital networks): Noggin, Nickelodeon GAS, Nick Too, M2, MTV X, MTV S, VH1 Country, VHI Smooth

Partial Ownership:

Comedy Central
Sundance Channel

General Electric/NBC

CNBC

Partial Ownership:

MSNBC
A&E Television
The History Channel
The Biography Channel
The History Channel International
AMC
Bravo
Independent Film Channel
MuchMusic
WE: Women's Entertainment
Valuevision
Fox Sports (regional networks): Chicago, Bay Area, Florida, New England, New York, Ohio, Madison Square Garden Network

5. CABLE PRICES

Despite escalating programming costs (especially higher sports rights fees) and billions spent on system upgrades, cable prices have remained relatively stable on a per-channel basis. For example, the Federal Communications Commission found that cable rates stayed unchanged in the year 2000 on a cost-per-channel basis (Report on Cable Industry Prices, FCC 01-49, MM Docket No. 92-266, released February 14, 2001). According to the same report, during the 12-month period ending July 1, 2000, average monthly prices for basic service tiers (BST), cable programming service tiers (CPST), and equipment increased by 5.8 percent. This represents a very slight increase (from 5.2 percent) for the year ending July 1, 1999 – during which CPST prices were subject to FCC regulation from July 1, 1998, to March 31, 1999.

Industry critics may seize on the fact that average monthly cable prices increased 5.8 percent compared to the inflation rate of 3.7 percent during the 12-month period ending July 1, 2000. But their criticism fails to take into account the fact that cable subscribers also received an average of three additional channels of BST and/or CPST programming. As cable systems are upgraded and new satellite programming services are launched, cable operators have added new channels that consumers want. Year-to-year comparisons which fail to consider the increased number of channels that operators provide to customers therefore create a misleading picture. In fact, data from the FCC and General Accounting Office show that over time, the price per channel of cable's video services has declined since 1986 when adjusted for inflation:

Price Per Cable Channel, 1986 – 2000

	12/1/86	4/1/91	7/31/97	7/31/00
Nominal Price per Channel	$0.44	$0.53	$0.63	$0.66
Price Per Channel Adjusted for Inflation (in 2000 dollars)	$0.69	$0.68	$0.68	$0.66

Source: GAO Survey of Cable Television Rates and Services, July 1991; FCC Reports on Cable Industry Prices, released 12-15-97 and 2-14-01; Bureau of Labor Statistics, CPI-U.

This drop in real per-channel cable prices has occurred even though programming costs have skyrocketed since 1986. For example, between 1996 and 2000, the cable industry spent over $36 billion on basic and premium programming – roughly 75 percent more than the $20.6 billion it spent during the previous five years. Cable customers today are receiving more channels and better value for their dollar than ever before.

CABLE SYSTEMS' PROGRAMMING EXPENDITURES:1986-2000

Year	Expenditures (in Billions)
1986	$2.030
1987	$2.289
1988	$2.599
1989	$2.918
1990	$3.195
1991	$3.463
1992	$3.811
1993	$4.000
1994	$4.370
1995	$4.963
1996	$5.656
1997	$6.413
1998	$7.466
1999	$8.000
2000	$8.882

Source: NCTA Research Department estimate, based on data from Paul Kagan Associates, Inc. and the U.S. Copyright Office.

5. CONCLUSION

Over the last five years, there has been rapid and unabated growth of competition in the video market. The job is not yet done, but the convergence of video, voice, and data services in the digital broadband marketplace will only accelerate this trend. Cable will continue to be a leader in providing consumers with choice – not only in video services, but also in high speed Internet services and telephony. At the same time, consumers will be able to choose from among multiple vendors when making their purchases. In this highly competitive business environment, companies that succeed will be those who offer consumers the best quality, value, and service. While it is not possible to forecast precisely which companies will be most successful, one thing that can be said with certainty is that American consumers will be the ultimate winners of this competition.

Thank you again for this opportunity to present our industry's views. I would be happy to answer the Subcommittee's questions.